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SUBJECT: CBE GOVERNOR EL OKDAH UPDATES AMBASSADOR ON GOE FINANCIAL SECTOR REFORM PROGRAM

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REF: A. Cairo 5337
 B. Cairo 5001
 C. Cairo 5287

11. (SBU) Summary: In addition to the request for a DVC reported in Ref. A, CBE Governor El Okdah provided the Ambassador and USAID Mission Director Ellis an overview of the current status of GOE financial sector reform efforts during their August 23 meeting. EL Okdah noted that privatization of Bank of Alexandria was well underway, as was the merger of Banque du Caire with Banque Misr. CBE was in the process of settling the remaining LE 19.1 billion in non-performing loans (NPL) held by the public banks. After settlement of the NPLs, CBE planned a capital injection for the two public banks that will remain, Banque Misr and National Bank of Egypt. He estimated that the total cost for the financial sector reform, including NPL settlement, would be LE 50 billion. End summary.

12. (SBU) El Okdah was animated as he explained in detail the GOE's financial sector reform program. Regarding privatization of BOA, he noted that the bank's LE 6.9 billion (\$1.2 billion) in NPLs had been settled in February and offers from the six short-listed bidders were due September 28 (Ref. B). Surprising even his own staff, El Okdah stated that the offers would be opened, evaluated and a winner decided on the same day, in a meeting of the Cabinet Economic Committee. Bidders have been asked to provide two items of information in the offers: 1) the number of shares to be purchased (must be between 75-80%), and 2) the offered price per share. The two lowest bids will be cancelled and the highest bid announced. The remaining bidders will be allowed one half hour to offer a new bid exceeding the highest bid. The winner will be announced, according to El Okdah, the first week of October.

13. (SBU) El Okdah said he hoped to obtain LE 10 billion (\$1.7 billion) from the sale of BOA. The proceeds from the sale would then be used to help settle the remaining LE 19.1 billion (\$3.3 billion) in NPLs held by the other public banks. He explained that the total LE 19.1 billion has been divided into NPLs owed by the private sector and those owed by public enterprises. Private sector NPLs have been further divided into three tiers: 1) loans below \$1 million, 2) loans between \$1-50 million, and 3) loans above \$50 million. CBE has already settled 48% of the private sector NPLs, all from the third category, i.e., loans above \$50 million. Of the 48% that have been settled, CBE has collected on 20% and rescheduled the remaining 28%. In the case of public sector NPLs, El Okdah stated that, in addition to proceeds from sale of BOA, revenue

generated by other privatizations, such as the petrochemical companies AMOC and MIDOR, would be used to settle the remaining NPLs.

¶4. (SBU) Once BOA is privatized and the NPL issue resolved, El Okdah said CBE plans to inject capital into the two public banks that will remain, Banque Misr and National Bank of Egypt. He stated that the capital injection, approximately LE 30 billion (\$5.3 billion), would come from a variety of sources, including proceeds from issuance of the third mobile phone license (Ref. C), revenues from additional public enterprise privatizations, loans from the World Bank (WB) and the African Development Bank (2 loans of \$500 million each), and U.S. economic assistance funds.

¶5. (SBU) Comment: El Okdah was extremely proud of CBE's record of reform in Egypt's financial sector, and was clearly looking for acknowledgement of how far Egypt's financial sector has come since he took office in December 2003. The IMF's July 2006 Article IV consultations produced a generally optimistic report, and the WB and African Development Bank loans also signs of confidence in the GOE's, and in particular CBE's, management of Egypt's economy. Acknowledgement from the U.S., however, has not been as forthcoming, an oversight that could be remedied by quick resolution of the outstanding issues in the DSP-II Monitoring Program.

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